



# HOUSE BUDGET COMMITTEE

## Democratic Caucus

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### ***Budget Update: Amended Budget Resolution and New Reconciliation Levels Mean Deeper Service Cuts To Fund Tax Cuts***

#### **Overview**

Last week's decision to postpone a vote on the misguided Republican plan to require deeper cuts to important services was a victory for the American people. Unfortunately, the Republican leadership has not yet cancelled consideration of the plan, which still may come to the House floor later this week. The budget amendment under discussion would increase reconciled mandatory spending cuts by 44 percent, from \$35 billion to \$50 billion, as well as propose an across-the-board cut to appropriations – possibly as much as a 2 percent cut to all appropriations.

Other elements may be included to address rescissions and to repeal programs that House appropriators have not funded.

It is not certain whether the Republican leadership will be able to generate sufficient votes to pass this badly flawed legislation. In the meantime, House authorizing committees this week are acting in accordance with the new plan by marking up reconciliation submissions aimed at the new \$50 billion target.

It is clear that the budget resolution amendment and the new reconciliation targets make a bad budget even worse, with deeper funding cuts to finance the latest round of Republican tax cuts. Throughout this budget and reconciliation process, the following points should be kept in mind:

- **Any spending cuts will be used to offset tax cuts, not the costs of hurricane response.** Long before the hurricanes, the budget resolution called for \$35 billion in reconciled mandatory spending reductions as a partial offset to the \$106 billion in tax cuts included in the budget resolution.
- **Spending cuts threaten vital services, including services for hurricane victims.** A number of the programs that may be cut, like food stamps and Medicaid, benefit victims of Hurricanes Katrina and Rita.
- **The revised budget resolution will still increase the deficit by more than \$100 billion over five years.**
- **Republicans' purported interest in offsetting hurricane costs reveals a double standard.** Why should the cost of rebuilding Biloxi be offset but not the cost of rebuilding Baghdad?

## **Major Points**

**Spending Cuts Offset Tax Cuts, Not Hurricane Costs** — Long before the hurricanes, the budget resolution called for \$35 billion in reconciled mandatory spending reductions as a partial offset to the \$106 billion in tax cuts included in the budget resolution, \$70 billion of which is facilitated by fast-track reconciliation procedures. Because the amendment to the budget resolution is not expected to revise revenue policy, any reconciliation spending cuts will continue to offset these tax cuts, not the cost of hurricane relief.

**Republican Claims About Offsetting Hurricane Costs Reveal Double Standard** — The Republican claim about offsetting the cost of hurricane relief is inconsistent with the decision in recent years not to offset tax cuts or supplemental funding for Iraq and other purposes. Why does the Republican leadership insist on offsetting the cost of rebuilding Biloxi but not the cost of rebuilding Baghdad?

**Spending Cuts Threaten Vital Services, Including Services for Hurricane Victims** — Committees have been struggling to find the original reconciliation spending cuts of \$35 billion. Even some Republicans are expressing concerns about cuts to programs like Medicaid, student loans, and food stamps. A number of the programs that may be cut, like food stamps and Medicaid, benefit people who have been affected by Hurricanes Katrina and Rita. An additional \$15 billion in mandatory spending reductions will mean deeper and more harmful cuts to programs such as these – a level of cuts that even Senate Republicans have shown no interest in pursuing. Meanwhile, across-the-board appropriations reductions, if included, could mean cuts to programs like veterans' health, law enforcement, public health, environmental protection, education, and even defense and homeland security.

**Highlights of Possible Reconciled Cuts** — Under one possible scenario discussed below, the revised reconciliation instructions could impose larger reductions on programs already slated to be cut, as well as expanding the range of programs that may be cut. For example:

- **Medicaid** — A \$10 billion cut to Medicaid could grow even larger;
- **Student Loans** — The \$8.7 billion in reductions already slated for the student loan programs reportedly will be increased by about \$6 billion, to \$14-\$15 billion; and
- **Nutrition and Agriculture** — The Republican budget amendment will reportedly increase the original instruction to the Agriculture Committee by \$1.5 billion, for a total cut of \$4.5 billion. The major mandatory spending programs under the Committee's jurisdiction are farm subsidies, crop insurance, conservation programs, and food stamps. Food stamps alone account for more than half of all spending under the Committee's jurisdiction and are therefore at risk of bearing a large share of the total cut.

**Revised Budget Resolution Will Still Increase Deficit** — Republicans passed a budget resolution this spring that over five years was going to make the deficit \$168 billion worse than if they took no budgetary action at all. Now they plan to revise their budget resolution with additional cuts – likely an additional \$15 billion of cuts in mandatory spending and perhaps \$16.9 billion in cuts from a 2 percent across-the-board cut in all discretionary funding. Even with this \$32 billion in additional cuts – likely to fall on critical services – the Republican resolution would still worsen the budget's bottom line by more than \$100 billion.

**Democrats Support Fiscal Responsibility** — Democrats have a strong track record on fiscal responsibility. In the 1990s, President Clinton and Democrats in Congress worked together to move the budget from record deficits to record surpluses. The budget resolution offered by House Democrats this year balanced the budget by 2012, while the Republican budget never reaches

balance, even with these proposed changes. Democrats also support reinstatement of the effective pay-as-you-go (PAYGO) rule that helped take the budget from record deficits in the early 1990s to a \$236 billion surplus just five short years ago. If the budget resolution is going to be revised, it should reinstate the PAYGO rule to be sure that new mandatory spending or revenue legislation does not make the deficit worse.

### **Details on Mandatory Spending Cuts**

**Revised Budget Resolution to Increase Mandatory Cuts by 44 Percent** — The original budget resolution instructed eight House authorizing committees to find a total of \$35 billion over five years in spending reductions – a number now expected to increase by \$15 billion (44 percent) for a total of \$50 billion in cuts.

**New Cuts May Fall Primarily on Four Committees** — While Republicans have not publicly announced how they intend to allocate the new mandatory cuts, press reports have discussed one possible scenario that would distribute most or all of the additional \$15 billion among four committees: \$1.5 billion to Agriculture; \$5.5 billion to Education and the Workforce; \$1.0 billion to Energy and Commerce; and \$7.0 billion to Ways and Means. This scenario – while not definitive – is illustrative of the kind of revision to the reconciliation instructions that could occur. The following table presents the reported scenario.

| <b>Potential New Reconciled Spending Cuts in Republican Budget Amendment</b><br>(billions of dollars) |  |   |                        |
|---|--|---|------------------------|
| <i><u>House Committee</u></i>   | <i><u>Original<br/>Reconciled Cuts</u></i> | <i><u>Reported Possible<br/>Additional Cuts**</u></i> | <i><u>Total</u></i>    |
| Agriculture   | -3.000                                     | -1.5  | -4.5                   |
| Education and the Workforce   | -12.651                                    | -5.5  | -18.1                  |
| Energy and Commerce   | -14.734                                    | -1.0  | -15.7                  |
| Financial Services  | -0.470                                     | ---   | -0.5                   |
| Judiciary   | -0.300                                     | ---   | -0.3                   |
| Resources   | -2.400                                     | ---   | -2.4                   |
| Transportation and Infrastructure   | -0.103                                     | ---   | -0.1                   |
| Ways and Means  | -1.000                                     | -7.0  | -8.0                   |
| <b><i>Total, 2006-2010</i></b>  | <b><i>-\$34.658</i></b>                    | <b><i>-\$15.0*</i></b>                                | <b><i>-\$50.0*</i></b> |

\*Approximate numbers.

\*\*Based on October 19 press report. Actual distribution of revised cuts may well be different.

**Agriculture Committee** — The original budget resolution requires the Agriculture Committee to cut spending by \$3.0 billion. The Republican budget amendment will reportedly increase that amount by \$1.5 billion, for a total cut of \$4.5 billion. The major mandatory spending programs under the Committee's jurisdiction are farm subsidies, crop insurance, conservation programs, and food stamps. Food stamps alone account for more than half of all spending under the Committee's jurisdiction and are therefore at risk of bearing a large share of the total cut. Any sizeable cut to the food stamp program would likely mean reducing benefit levels (currently about \$1 per person per meal) or narrowing the eligibility criteria in order to eliminate hundreds of thousands of low-income individuals and families from the program entirely.

**Education and the Workforce Committee** — It has been reported in the press that the budget amendment will increase the Committee's reconciled cut by \$5.5 billion, to a total of \$18.1 billion over five years. The Committee has approved two bills that saved \$10.6 billion – still \$2.0 billion short of the Committee's original reconciliation instruction. (H.R. 2830, the Pension Protection Act, cuts direct spending by \$2.0 billion, and H.R. 609, which reauthorizes the Higher Education Act, cuts spending on the student loan programs by \$8.7 billion.) On October 25, Committee Chairman Boehner announced his intention to cut spending by a net of \$18.1 billion, with even larger gross cuts that are partially reduced by some spending increases on unrelated programs.

- ***Cut Student Loan Programs*** — Most of the intended savings result from changes in student loan interest rates and subsidies to lenders. Overall, students will pay more for their loans and lenders will receive smaller subsidies. These changes reportedly cut student loan spending by between \$14 billion and \$15 billion over five years.
- ***Further Increase Pension Premiums*** — Chairman Boehner has announced his intention to modify the proposals in H.R. 2830 to allow the PBGC to raise premiums annually and to charge a new premium on companies that terminate their plans. Together, these provisions reportedly save between \$5.5 billion and \$6.5 billion.

**Energy and Commerce Committee** — The original budget resolution instructed the Committee on Energy and Commerce to find spending cuts of \$14.7 billion over five years. Press reports are that the Chairman's mark is anticipated to generate savings from Medicaid and spectrum auctions – with a net total of \$18 billion in savings. While the Chairman's mark is still being revised, a version released on October 20, 2005, includes Medicaid cuts that increase cost-sharing, make it harder for beneficiaries to become eligible for long-term care by tightening rules regarding asset transfers, modify payments for prescription drugs, and give states the flexibility to offer different benefit packages to different beneficiaries, and create health savings accounts for Medicaid beneficiaries. Spectrum provisions of the legislation are expected to generate a net savings of \$8 billion to \$9 billion. Net Medicaid savings were expected to be around \$10 billion, but recent press reports suggest the savings might be even larger.

**Resources Committee** — While not reportedly slated to get an increase in its reconciled cut, the Resources Committee is nevertheless expected to have the fifth largest reconciliation target. The Resources Committee's current mark assumes revenues from opening both the Arctic National Wildlife Refuge and the Outer Continental Shelf to oil and gas exploration, expanding the ability of companies to mine on public lands, and selling some federal lands. Scoring information on the entire package is not yet available. CBO estimates that opening the Arctic to drilling will net \$2.5 billion in revenues to the federal government over the 2006-2010 period, after distribution of the same amount to the State of Alaska. Last week, the Senate Energy and Natural Resources Committee passed its proposal to drill in the Arctic to meet its reconciliation target.

**Ways and Means Committee** — The reconciliation spending cuts assigned to the Ways and Means Committee reportedly will increase by \$7 billion, resulting in a total cut of \$8 billion over five years. The Committee is scheduled to consider legislation later this week to meet that higher target. Significant program cuts could include:

- ***Child Support*** — The Committee may cut federal spending on child support programs by \$3.8 billion. This cut will reduce states' capacity to collect child support, which in turn will reduce the resources available to single parents and weaken efforts to strengthen families by keeping both parents financially and emotionally involved in their children's lives.
- ***Foster Care and Adoption Assistance*** — The Committee may cut spending on foster care and adoption assistance by \$577 million. These federal programs help states to care for

abused and neglected children and to find adoptive homes when reunification with parents is impossible.

- ***Supplemental Security Income*** — The Committee may consider proposals to reduce SSI spending by \$732 million. Within this total, one provision would save \$425 million by delaying full payment of retroactive benefits to individuals who are found eligible for assistance.
- ***Continued Dumping and Subsidy Offset Repeal*** — Under current law, anti-dumping duties paid by overseas firms are distributed directly to the U.S. firms affected by the dumping. A proposal under consideration would end the practice of distributing the collected duties to affected firms, reducing federal spending by \$3.2 billion.

### **Details on Possible Discretionary Spending Cuts**

**Revised Budget Resolution Might Cut Appropriations Across the Board** — Chairman Nussle has proposed revising the budget resolution to reflect an across-the-board cut in 2006 discretionary spending, including defense and homeland security, of 2 percent. Because some House Republicans have disagreed with this proposal, it is not clear whether appropriations cuts will be included in the final package, and, if so, at what level. (The budget resolution amendment's treatment of appropriations might even be limited to non-binding language expressing a commitment to cut appropriations later in the year.) If included, a 2 percent cut would eliminate \$16.9 billion from the planned spending level of \$843 billion – the level in both the Republican budget resolution and the President's budget for 2006. Senate Republicans have not indicated any intention to pursue a similar cut.

**2 Percent Cut Would Be Larger Than Previous Cuts** — Congress has enacted across-the-board cuts in omnibus appropriations bills in five of the last six completed appropriations cycles (Fiscal Years 2000, 2001, 2003, 2004, and 2005). The across-the-board cuts varied in size from 0.22 percent for 2001, to 0.8 percent in 2005. If pursued, a cut of 2 percent – as Chairman Nussle has proposed – would be more than twice as big as the next largest cut enacted.

**Cuts Could Include Defense and Homeland Security** — Chairman Nussle has proposed applying the across-the-board cut to all areas of discretionary funding, including defense and homeland security. If included, a 2 percent across-the-board cut from the budget's planned 2006 discretionary levels would mean:

- **Defense** — a \$9 billion defense cut (this does not include emergency war funding);
- **Homeland Security** — cutting non-defense homeland security programs by \$583 million below the level requested by the President and provided in the budget resolution, by \$252 million below the amount needed to maintain services at the 2005 level, and by \$53 million below the comparable 2005 enacted level; and
- **Non-Defense, Non-Homeland Security** — slashing the remaining non-defense, non-homeland security programs to a level that is \$14.0 billion below the amount needed to maintain services at their current levels, \$10.4 billion below the 2005 enacted level, and \$7.5 billion below the level provided in the President's budget and the budget resolution.

**2 Percent Cut Would Have Harmful Impact on Critical Services** — If the 2 percent cut were pursued and distributed equally across all programs, the following are some examples of the impact on funding for critical services:

- ***Veterans' Health Care*** — The Administration recently submitted a \$2 billion budget amendment to address acute shortfalls in the 2006 budget for veterans' health care. These additional resources are needed to maintain current services and to care for a greater than anticipated number of veterans returning from the wars in Iraq and Afghanistan. An

across-the-board 2 percent reduction would reduce veterans' discretionary funding by more than \$600 million, making the shortfall much worse. Based on VA projected health care costs, this reduction translates to nearly 100,000 fewer veterans receiving health care in 2006.

- ***Environmental Protection*** — EPA received \$7.7 billion in the already-enacted 2006 appropriations bill, which was a \$327 million (4.2 percent) cut below the 2005 enacted level. A 2 percent cut would reduce 2006 spending for the EPA by an additional \$154 million, further jeopardizing clean water and drinking water infrastructure programs, leaking underground storage tank cleanup efforts, the ability to clean up Superfund sites, and other important programs.
- ***Special Education*** — A 2 percent cut in special education funding would cut 2006 funding to below the 2005 level, and would further reduce the share of costs that the federal government covers to only 17.7 percent, far less than half of the 40 percent “full funding” authorized to help more than 6.9 million students who receive special education.